

What does the Budget mean for you?



Chancellor Jeremy Hunt may have pulled the rabbit out of the hat in the latest Budget with his pensions tax bonanza, but while there was some great news for long-term financial planning, there are also challenges with many people facing a higher tax burden.

While the scrapping of the Lifetime Allowance and the increase in the pension Annual Allowance have been widely welcomed, it's important to remember that many of the announcements on the taxation of personal wealth and income had been made in the Autumn Statement. This includes frozen and falling Income Tax thresholds, and reduced Capital Gains Tax and dividend tax allowances.

With budgets already under a lot of pressure, it's important to understand what this latest raft of changes means for you and your finances. Here we take a closer look.

Pensions

Pensions took centre stage in the Spring Budget, here's a rundown of the main changes and what they could mean for you:

Scrapping of the Lifetime Allowance

In a surprise move, the Chancellor announced the abolition of the Lifetime Allowance (LTA) from 6 April 2023. Currently, the LTA is set at £1,073,100, any excess amount above it is taxed at 55%. Scrapping the allowance will reward those who have saved hard into pensions to secure their futures.

The hope is that this measure will discourage higher earners, particularly those in the public sector, from retiring early, as they will no longer face potential tax penalties for going over the allowance. In addition, it could help individuals with 'lumpy' earnings who were looking to make larger pension contributions later on in life.

However, in addition to removing the LTA, Jeremy Hunt froze the tax-free lump sum at £268,725 – previously it was 25% of the pension value (up to the LTA). By creating a fixed sum, the tax-free amount will decline in value in real terms into the future, unless it is uprated in line with inflation. In addition, high earners' pension income will still likely be taxed at 40%, so this isn't a completely blank cheque for wealth savers.

Changes to the pension allowance

The Chancellor also announced that the pension Annual Allowance is to be increased from £40,000 to £60,000, allowing people to save more money in their pensions tax-free. This will be welcome news to those worried about suddenly facing tens of thousands of pounds in tax charges.

It may be another incentive for experienced professionals to remain in work for longer.

Rise in Money Purchase Annual Allowance (MPAA)

In a further boost for pension savers, the MPAA will rise from £4,000 to £10,000 from 6 April.

This allowance was introduced in April 2015 and affects the amount people are allowed to add to their pensions after they have flexibly accessed their pension benefits. It was created to try to stop people gaining tax relief twice if they withdrew pension savings and then paid them straight back into their pension. The £4,000 limit however had become a disincentive for people to return to work after accessing their pension. The higher rate removes this problem and should also provide a vital boost to savers' income for retirement at a later point.

State pension

Currently, the State Pension age (SPA) in the UK is 66 and is set to rise to 67 between 2026 and 2028, and then to 68 between 2044 and 2046. There had been some speculation that the SPA may rise more quickly, with proposals to bring the rise to 68 forward to 2037. There was no mention in the latest Budget about it, but the Government has since pushed back the decision on accelerating the process to after the next election.

However, there is some good news for those receiving the new State Pension who will get a boost from April, with a 10.1% rise in their payment.

This is thanks to the return of the 'triple lock' (announced pre-Budget), which ensures the State Pension goes up each year by the highest of either 2.5%, inflation or average earnings. The full new State Pension will increase from its current £185.15 a week to £203.85 from April 6 (worth £10,600 a year).

Taxation

Given the raft of tax changes announced in the Autumn Statement, this latest Budget felt to be more tinkering at the edges when it came to taxation measures.

Income Tax

Changes to Income Tax announced last November will mean many earners will be looking at increased tax bills from April. With the thresholds frozen until April 2028, an increasing number of people will be dragged into paying tax at a higher rate due as wages rise due to inflation.

Plus, the planned reduction in the threshold at which the 45% band starts, from £150,000 to £125,140 from next month will see top earners further impacted.

Capital Gains Tax (CGT)

There were no further announcements on CGT, so the annual exempt amount will reduce from £12,300 to £6,000 from April 2023 before being further reduced to £3,000 from April 2024.

This is a big change, so if you are planning to sell long-term assets like shares that aren't held in tax-exempt accounts, paintings, jewellery, houses other than your main home, antiques or valuable artefacts, speak to your adviser about ways to manage any liability.

Increase in Corporation Tax

As expected, Jeremy Hunt confirmed the headline rate of Corporation Tax will rise from 19% to 25% for companies with profits over £50,000. The full 25% applies to companies with annual profits of £250,000 or more, with a system of marginal relief applying to those in between.

This comes on top of recent raids on the dividends of single-person companies, sparking fears that these changings will hit growth and cost jobs. However, he did throw businesses a lifeline with the introduction of a 100% tax deduction for capital expenditure on new plant and machinery from April 2023.

Other measures announced in the Spring Statement

Fuel Duty freeze

Drivers can breathe a sigh of relief from knowing that fuel duty will remain frozen, and the temporary 5p cut extended for 12 months.

Energy Price Guarantee

Given the cost of energy is one of the biggest concerns for many households, the announcement that the current £2,500 cap will remain in place for the next three months is very good news. Plans for a reduction in support – which would have seen the average bill hiked up to £3,000 from April – have been scrapped. This will not only help households deal with the immediate pressure of rising bills, but should also tackle inflation, benefiting the economy as a whole.

Next steps

These are tough times both for the economy and for our finances. Amid the ongoing uncertainty, you need to look at your situation and ensure your finances are in as good shape as possible. If the Spring Statement has impacted your finances, or if you have any questions or concerns, please get in touch to arrange a chat. You don't have to wait for your annual review, we're always here to help.